OCBOA Tax-Basis Compilations And Reviews Teleconference

Sept. 25, 2008

David Bolton, Cherry, Bekaert & Holland
dbolton@cbh.com

Practical Considerations

I. When OCBOA Financial Statements Don't Work

A. Relatively complex operating models

B. Significant third-party financial reporting

C. Loan covenants

D. Regulatory requirements

II. Modification Of Financial Statement Titles

A. OCBOA financial statements are not intended to present financial position and results of operations

B. Examples of modified statement titles

1) Statement of asset and liabilities arising from cash transactions

2) Statement of assets, liabilities and stockholders' equity – income tax basis

3) Balance sheet – cash basis

4) Statement of cash receipts and disbursements

5) Statement of revenues collected and expenses paid

6) Statements of revenue, costs and expenses – income tax basis

7) Statement of operations – modified cash basis

III. Modification Of Financial Statement Captions

A. Modification recommended but not specifically required (Technical Practice Aids Sect. 1500)

B. Examples

1) Accumulated excess of revenue over expenses paid

2) Retained earnings – income tax basis

3) Excess of revenue collected over expenses paid

4) Revenue over (under) expenses

5) Net income – tax basis

IV. Statement Of Cash Flows

A. Not required

B. Frequently included anyway, in practice

C. Individual amounts differ for GAAP, cash basis and tax basis; end result is the same

V. Required Disclosures (SAS 62 And Interpretation 14)

A. Requires presentation of substantially all information required by GAAP

B. Examples

1) Changes in stockholders' equity

2) Comprehensive income

3) Basis of accounting

4) Accounting policies

5) Risks and uncertainties

6) Liquidity

VI. Reporting Non-Taxable Income, Non-Tax-Deductible Expenses In Tax-Basis Financial Statements

A. No authoritative guidance

B. Frequently included and not separately recognized

C. Appropriate approaches

1) Separate line items

2) Adjustments to "net income"

3) Disclosure in notes to financial statements

VII. Cash-Basis Reporting

A. Pure cash basis – only cash receipts and cash disbursements

B. Modifications should have substantial report – normally required by GAAP

C. Examples

1) Marketable securities

2) Property and equipment

3) Inventory

4) Withheld payroll taxes

5) Borrowed cash

6) Accrued income taxes

VIII. Careful Disclosure Required By Income Tax-Basis Reporting

A. Statutory orientation (sometimes not logical for financial reporting)

B. Different accounting bases and policies

C. Examples

1) Statutory depreciation and depletion

2) Investments

3) Cash vs. accrual basis

4) Percentage of completion vs. completed contract

IX. Auditors' And Accountants' Reporting

A. Required modifications

B. Disclosure

C. Emphasize reporting